

CESAS-CT-E
DEPARTMENT OF THE ARMY
SAVANNAH DISTRICT, CORPS OF ENGINEERS
P.O. BOX 889
SAVANNAH, GEORGIA 31401-0889

DISTRICT REGULATION
No. 715-1-6

12 February 1993

Procurement
REQUESTING, RECEIVING, AND TRACKING CONTRACT AUDIT REPORTS

1. Purpose. To establish procedures and responsibilities for implementation of the requirements in AFARS 15.874 and DFARS 15.890
2. Applicability. This regulation applies to all operating elements of the Savannah District engaged in the acquisition and/or contract administration process.
3. References.
 - a. AFARS 15.890-1
 - b. AFARS 15.891
 - c. ER 11-1-28
4. General. References in paragraph 3 above require that all contract audit reports be tracked from request for audit through receipt, resolution, and disposition. In addition, these references prescribe policies for contract audit follow-up and establish a system for management action on contract audit reports.
5. Responsibilities.
 - a. Chief, Contracting Division shall:
 - (1) Report all open audits to the Deputy Commander at least quarterly. Open reportable audits over 6 months old and not litigation and open reports on which the Contracting Officer has not provided a status report will be reported to the Deputy Commander at least quarterly.

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(2) Provide input for Report DD-IG(SA) 1580 to tracking individual in Contracting Division. (See Appendix A).

b. Audit Tracker (Contracting Division) shall:

(1) Track all requests for audits through receipt, resolution and disposition in accordance w/AFARS 15.890-1.

(2) Submit Status Report on Specified Contract Audit Reports (Report Control Symbol DD-IG(SA) 1590) to Army Procurement Research and Analysis Office (SAFAD-KPR) no later than 5 April and 5 October to cover periods ending 31 March and 30 September (Appendix A).

(3) Maintain a suspense system of information to be furnished by Contracting Officer; i.e., additional; information requested by DCAA or CESAD-AO-KJ, supporting documentation of resolution and disposition, etc.

6. Procedure:

a. Audit Request. Staff requests for audits will be sent to the audit tracker, Contracting Division, in duplicate. Requests shall be submitted on the form prescribed in Appendix B. Staff request shall be submitted with a Contract Pricing Proposal Cover Sheet (SF 1411) or other pricing forms (SF 1424 through 1439). A copy of the Technical Analysis is not submitted for review.

b. Tracking Requirements. The Contracting Officer is required to establish and maintain a register of audit reports until the audit is disposed. All audit reports will be tracked. (AFARS 15.891-2). The audit tracker will assign an audit internal control number and forward a formal audit request to the cognizant Defense Contract Audit Agency (DCAA) office or the South Atlantic Division Resident Audit Office (CESAS-AO-KJ) The audit tracker will furnish the internal control number to the requester.

c. Military Contract Audits. The audit request for military contracts will be forwarded by the audit tracker to the cognizant Defense Contract Audit Agency (DCAA) and performed in accordance with DCAA directives and applicable acquisition regulations.

d. Civil Works Contract Audits. The audit requests for civil works contracts will be forwarded by the audit tracker to the SAD Resident Audit Office (CESAD-AO-KJ) and performed in accordance with ER 11-1-28. Contract auditors will perform responsibilities in accordance with EFARS 15.805-5(b).

7. Resolution of Contract Audit Report.

a. Definitions.

(1) RESOLUTION: Involves the agreement between the Contracting Officer and the auditor as to the questioned elements of the contractor's pricing claim or proposal.

(2) DISPOSITION: A negotiated settlement with the contractor, formalized by an executed contract document or contractor implementation of the Contracting Officer's decision.

(3) OVERAGE: An audit report that has not been disposed of or "dispositioned" and is over 12 months old.

b. AFARS 15.890-1, BUSINESS CLEARANCE PROCEDURES, paragraph (c) states: The requirement for resolution of contract audit recommendations will be satisfied through the business clearance procedures [BCM].

c. The Contracting Officer is responsible for reaching agreement with the auditor (resolution).

d. The resolution and disposition of all contract audit reports shall be consistent with legal statutes, regulations, and DOD policy. Resolution of contract audit reports, other than preawards, is required by Public Law 96-304 ("Supplemental Appropriations and Rescissions Act of 1980, " July 8, 1980), as well as by Office of Management and Budget (OMB) Circular A-50 (Revised) ("Audit Follow-up." September 29, 1982), within 6 months of report issuance. Disposition should take place as soon as possible after resolution.

e. Resolution is achieved when the auditor and the Contracting Officer agree on the action to be taken on audit report findings and recommendations and/or qualifications; or, in the event of disagreement, when the Contracting Officer determines a course of action after following the prenegotiation documentation and review procedures (Pre-BCM). Resolution must be supported by specific written documentation in the file. Upon resolution of the contract audit, the government's prenegotiation objectives [PreBCM]

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must be established in sufficient detail to provide a comprehensive negotiation position. A price-negotiation memorandum must be prepared and furnished to the auditors. [PostBCM] (The PreBCM must be approved prior to the initiation of negotiations. The PreBCM is not furnished to the auditor).

(1) Resolution of contract audit reports, other than pre-awards, is required by Public Law (PL) 96-304, as well as Office of Management and Budget (OMB) Circular A-50, Audit Follow-up, within six (6) months of report issuance.

(2) Disposition of audit reports as indicated above should take place as possible after resolution.

f. The documentation and review of proposed prenegotiation objectives shall provide the independent review for internal control purposes prescribed by OMB Circular A-50. For most contract audit reports, the Contracting Officer should obtain Contractor comments, and such technical advice deemed necessary, prior to formulating a prenegotiation position. The additional information shall be shared with the auditor, as appropriate. If additional audit effort is required because of data presented by the Contractor, the Contracting Officer shall promptly request a such review, and the audit organization shall give priority to such a review, and the audit organization shall give priority to providing the necessary additional audit support. If no additional audit effort is deemed necessary, the Contracting Officer shall communicate with the auditor on the proposed disposition, as necessary, to reach a fully informed decision. In documenting his/her prenegotiation position, the Contracting Officer should indicate whether the audit recommendations were accepted or, if not, whether the auditor has revised them. When the Contracting Officer disagrees with the audit position, the Contracting Officer's prenegotiation documentation should include the rationale for not accepting the audit advice. The postnegotiations documents should include a summary of the field pricing report recommendations and the reasons for any pertinent variances from those recommendations.

g. An audit that is not resolved within 60 days after the date of audit shall be referred to the Chief, Contracting Division. The Chief, Contracting Division shall give careful consideration to the findings and recommendations of auditors, as well as recommendations rendered by the other members of the Contracting Officer's team, in reviewing the position of the Contracting Officer.

The review shall be completed prior to commencement of written or oral discussions and the results shall be incorporated in clear, written recommendations to the Contracting Officer addressing each difference between the position of the Contracting Officer and the auditor. Contract audit report for which resolution has not been accomplished within 6 months, shall be reported to the Principal Assistant Responsible for Contracting (PARC).

8. Notification of Final Disposition of Contract Audit Reports.

a. Explicit and timely documentation and feedback on the final disposition of audit reports are essential. Therefore, the Contracting Officer shall promptly prepare a memorandum covering the disposition of all reports. The memorandum shall discuss the disposition of all recommendations and questioned and/or qualified amounts, including the underlying rationale for such dispositions. A copy of the memorandum (Post-BCM) shall be provided to the audit tracker who will forward the copy to the cognizant contract auditor before a report is closed.

b. Existing feedback mechanisms, such as a price negotiation memorandum, DFARS 15.808 and FAR 15.808(a), or a written overhead negotiation memorandum, DFARS 42.706 and FAR 42.705-1(b) (5) should be used, when applicable. For all other actions, a similar document shall be prepared. To ensure that the final disposition of all audit reports is properly accounted for, the Contracting Officer shall notify the audit tracker, Contracting Division, in writing, who in turn will notify the cognizant audit office in writing of the cancellation of any acquisition action and of any unsuccessful offerors not receiving award of the contract or grant for which an audit report was issued.

c. Reporting Requirements. Status Report on Specified Contract Audit Reports (Report Control Symbol DD-IG(SA) 1580) will be submitted semiannually to CEPR by 5 April and 5 October of each year. Reportable audits prescribed in Appendix C will be reported in the format prescribed in Appendix A.

9. Documentation. A Business Clearance Memorandum (BCM) is required on all contract audits requiring resolution and disposition in accordance with DOD Directive 7564.2 (see AFARS 15.890-1. All audit reports require resolution and disposition. All documentation is required in writing and shall reference the audit involved and show date of action. Copies of all supporting actions shall be furnished to the audit tracker. Contracting Division, for audit tracking purposes.

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All District elements are individually responsible for providing status reports on all trackable audits to the audit tracker, Contracting Division. Any change in status must be submitted within 10 days of its occurrence. Status updates must show the SAD Resident Auditor Control Number or a DCAA Audit Report Number.

3 Appendices

App A - Status Report

App B - Request for Audit

App C - Audits Reports - Types
and Definitions

DONALD R. HOLZWARTH

Colonel, Corps of Engineers

Commanding

DISTRIBUTION - C &D

PLUS CT (10)

IM-SM (5)

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App A
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STATUS REPORT ON SPECIFIED CONTRACT REPORTS

(Report Control symbol DD-IG(SA) 1580)

OPEN REPORTS

For period ending_____

U.S. Army Engineer District, Savannah_____

Audit Report Number	Report Date	Contractor Name	Type of Audit <u>1/</u>	Cost Questioned or Obst Avoidance	In Litiga- tion <u>3/</u>	Resolved or Unresolved <u>4/</u>	Resolution Target Date <u>5/</u>	Disposition Target Date <u>5/</u>
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A. Overaged reports (over 12 months old)

B. Reports 6-12 months old

C. Reports less than 6 months

D. Reports in litigation

E. Reports involved in criminal
investigation 2/

1/ Use types or codes listed in Appendix C

2/ If the investigation organization has requested deferral of resolution or disposition

3/ docket/Case No. Or no (N)

4/Date of resolution or (U) if unresolved

5/Year, month, day

STATUS REPORT ON SPECIFIED CONTRACT AUDIT REPORTS
(Report Control Symbol DD-IG(SA) 1580)

REPORTS CLOSED DURING PERIOD

For period ending _____
Army Engineers District, Savannah _____

					Costs	
Audit	Report	Contractor	Type of	Date of	Questioned	Costs
Report	Date <u>1/</u>	Name	Audit <u>2/</u>	Disposition <u>1/</u>	or Cost	Sustained/
Number					Avoidance	Avoided

A. Reports listed as overaged in prior report

B. Other reports closed during period

1/ Year, month, day
2/ Use types of codes listed in Appendix C

APPENDIX B

Army Corps of Engineers
Savannah District

REQUEST FOR AUDIT

From: CESAS _____ Solicitation Number or
Name _____ Contract Number: _____
Tel No. _____ Project Name: _____

Modification No. _____
Date: _____

To: CESAS-CT-E

1. Request the following report (check one):

<input type="checkbox"/> Estimating System Survey	<input type="checkbox"/> Final Pricing Submissions
<input type="checkbox"/> Accounting System Survey	<input type="checkbox"/> Termination Settlement Proposals
<input type="checkbox"/> Internal Control Review	Reviews of Contract Claims
<input type="checkbox"/> Defective Pricing Reviews	<input type="checkbox"/> a. Equitable Adjustment
<input type="checkbox"/> Forward Pricing Proposals	<input type="checkbox"/> b. Hardship Claims
<input type="checkbox"/> Cost Accounting Standards Non-Compliance Determinations	<input type="checkbox"/> c. Escalation Claims
<input type="checkbox"/> Operations Audit	<input type="checkbox"/> Progress Payments
<input type="checkbox"/> Incurred Costs	<input type="checkbox"/> Preaward Surveys
<input type="checkbox"/> Settlement of Final Indirect Costs	<input type="checkbox"/> Proposals for Change Orders or Modifications
<input type="checkbox"/> Closing Statemnts	<input type="checkbox"/> Assist Audits

Prime/Sub Contractor: (Name) _____
(Address) _____
(City/State) _____

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2. Technical Evaluation enclosed: ____yes ____no (If no state target date)_____

3. Other enclosures: (list)

4. Other audits of this contractor within the previous 12 months (by audit number):

5. Remarks:

Signature

Title

INSTRUCTIONS

Request for audit will be furnished in duplicate as follows:

Page 1 of 2:

Item 1: Complete all blanks on page 1. See Appendix C for type of audit. Indicate whether prime or subcontractor.

Page 2 of 2:

Item 2: If technical analysis is not included with audit request, indicate date it will be furnished.

Item 3: List any and all enclosures including standard forms submitted by contractor or claimant.

Item 4 List known audits of contractor within previous 12 months.

Item 5: Special instructions must be stated. As a minimum, state whether military or civilian requirement.

Forward to CT-E (Audit Tracker)

APPENDIX C

AUDIT REPORTS
TYPES AND DEFINITIONS

<u>CODE</u>		<u>TYPE OF AUDIT</u>
A	240	Estimating System Survey
B	159	Accounting System Review
C*	179	Internal Control Review
D	420	Defective Pricing Review
E	440	Cost Accounting Standards Noncompliance
F	105	Operations Audit
G*	160	Incurred Costs
H*	140	Settlement of Indirect Cost Rate
I*	153	Final Pricing
J*	171	Terminations
K*	172	Equitable Adjustment Claims
L*	173	Hardship Claims
M*	174	Escalation Claims

*Report costs or rates questioned/qualified must equal \$100,00 or more.

<u>Nonreportable Audits:</u>	Preaward Proposals
	Forward Pricing
	Overhead and Other Advance Rate Proposals
	Progress Payments
	Preaward Surveys
	Proposals for Change Orders or Modifications
	Assist Audits
	Closing Statements

NOTE: ALL REPORTS (WHETHER REPORTABLE OR NONREPORTABLE) MUST HAVE
A DOCUMENTED RESOLUTION AND DISPOSITION ACTION.

105--Operations Audit: An evaluation of Contractor's operations, related functions, and/ or cost objectives for the purpose of determining if the most efficient and economical methods are in use. Such an audit involves review and evaluation of a Contractor's policies, procedures, controls and actual performance to assure that a reasonable level of cost efficiency is achieved in accomplishing contract requirements.

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App C

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140--Settlement of Indirect Cost Rate: An audit of indirect costs and the review of allocated methods and procedures applicable to such costs included in overhead, general and administrative expenses, and other indirect cost groups. These audits include an evaluation of the Contractor's allocation methods and bases, account analysis, home office costs and allocations, accruals, adjustments, credits, miscellaneous income, unusual journal entries, etc.

153--Final Pricing Submission: An audit of a Contractor's final pricing proposal under a flexible fixed price contract. (All cost reimbursable contracts).

154--Closing Statement: The audit effort involved in reviewing a Contractor's final voucher and related closing documents and in reconciling the final voucher costs to audited costs on a cost type contract.

159--Accounting System Review: A review of a Contractor's accounting system for the purpose of determining the adequacy and suitability of the system to accumulate costs for government contracts.

160--Incurred Costs: All audits of costs incurred under a cost type contract, except the final audit. (All cost reimbursable contracts).

171--Termination Settlement Proposals: A review of a Contractor's claim for costs incurred on a terminated contract.

172--Equitable Adjustment Claims: A review of a claim initiated and submitted by a Contractor for costs incurred as a result of abnormal conditions not known or anticipated at the time the contract price was established.

173--Hardship Claims: A claim for adjustment of price in contract based on P.L. 8-4.

174--Escalation Claims: A claim submitted by a Contractor based on a clause in the contract to adjust prices in labor and material costs because of economic fluctuations or to provide for contract adjustments in the event of changes in the contract's established price. Upward or downward price adjustments are tied to the occurrence of certain contingencies which are specifically defined in the contract and beyond the control of the Contractor.

175--Progress Payments: A review of a Contractor's request for payment in performance of a contract in accordance with the provisions of the Federal Acquisition Regulation (FAR) subpart 32.5. This does not apply to contracts for construction when such contracts provide for progress payments based on a percentage or stage of completion. (All cost reimbursable contracts).

179--Internal Control Review: A review of a Contractor's methods and procedures to safeguard resources, assure the accuracy and reliability of accounting and cost data, promote operational efficiency and encourage adherence to established management policies and procedures.

210--Forward Pricing Proposal: A review of a Contractor's estimate of costs supporting all types of proposals in connection with the award, administration, modification, or repricing of a government contract.

230--Advance Rate Agreement: A review of projected or forecasted bidding rates, pricing factors and other data which will be included in a Contractor's subsequent bid proposal. This review will lead to the establishment of formal or informal rate agreement or will form the basis for subsequent auditor recommendations regarding prospective costs.

240--Estimating System Survey: The evaluation of Contractor's estimating methods and procedures.

420--Defective Pricing Reviews: A post award review of Contractor's cost or pricing data to determine if it was accurate, current and complete at time of price agreement.

440--Cost Accounting Standards Non-compliance Determination: Review of initial or revised disclosure statements and compliance reviews dealing with the Cost Accounting Standards.

--Preaward Surveys: A review of a Contractor's proposal before an award is made. Usually applies to 8 (a) proposals and non-competitive proposals over \$500,000 in support of all costs.

--Proposals for Change Orders or Modifications: A review of a Contractor's proposals for change orders/modifications over \$500,000 in support of all costs.

--Assist Audits: An assist audit is an audit of a subcontractor's claim within a prime Contractor's claim. The assist audit is not resolved or disposed of if its results are included in the audit for the prime Contractor and the resolution and disposition of the audit of the prime Contractor address the issues of the assist audit. If the DCAA/SADAO-KS auditor has not included the assist audit in the prime Contractor audit, the assist audit will be resolved and disposed of separately.

--Open Reports: An audit report that has not been disposed of is considered open.

--Closed Reports: An audit report that has been disposed of is considered closed.